



# Republican Policy Committee

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March 18 1996

## *The Check's in the Mail*

### **Clinton's Defense Budget Delays Weapons Modernization — Again**

*"As in the past, technologically superior equipment is crucial to U.S. readiness and combat success . . . However, as overall defense spending has been reduced, procurement accounts have been the bill payer for other readiness-related spending. We can no longer afford to push procurement into the outyears."*

[Chairman of the Joint Chiefs of Staff, Report to the Congress, 1996 Force Readiness Assessment, March 1996, p. ES-2]

For three years in a row, the Clinton Administration has failed to keep its promise to increase the Pentagon's weapons procurement accounts. And for the third time, the Administration says the procurement check is in the mail — and will come next year.

Meanwhile, the President's Fiscal Year 1997 budget request for weapons procurement is **\$3.4 billion less** than what is being spent today for procurement, despite recommendations from top U.S. military advisors that procurement funds should be increased this year. Further, it is likely the procurement levels the Administration promises to reach in future years will not materialize because the proposed source for funds (savings from continued low inflation for seven years, base closures, and from acquisition reform measures) are tenuous, at best.

The lack of adequate funding for modernization has prompted Chairman McCain's Readiness Subcommittee of the Armed Services Committee — which traditionally focuses on short-term readiness — to hold a hearing with the Service Chiefs on Thursday, March 14, 1996, on long-term readiness, and the implications for national security of delaying modernization.

### **The FY 1997 Defense Budget and the Five-Year Defense Plan**

For FY 1997, the Pentagon has requested \$242.6 billion in total spending, a 6-percent decrease from the 1996 amount. Of this total, \$38.9 billion is planned for procurement. This is \$3.4 billion less than the \$42.3 billion that is being spent this year, and represents the **lowest level in defense procurement since the Korean War**. Since 1992, procurement has been reduced by **44 percent**. Since 1985, procurement has declined **71 percent**. The Administration

cited three reasons for the decline in procurement spending in FY97:

- A shift of \$2 billion from procurement to research and development accounts for intelligence-related activities;
- Expenses associated with unplanned military operations (e.g., Bosnia); and,
- Personnel-related costs.

[DoD Comptroller John Hamre, hearing of the Senate Armed Services Committee on the Defense Authorization Request for FY 1997, 3/5/96]

While each one of these explanations may be legitimate, what confidence should Congress have that next year there won't be other unplanned, unbudgeted issues that will postpone a ramp-up in procurement spending in the future? The FY 1997 budget proposes procurement levels (in budget authority) for the next four years as follows:

FY 1998: \$45.5 billion;

FY 2000: \$57.7 billion

FY 1999: \$50.5 billion;

FY 2001: \$60.1 billion

If these levels are reached, modernization spending would jump by 40 percent between 1997 and 2001. Unfortunately, this is unlikely.

### **Proposed Procurement Levels Likely Will Not Be Realized**

It is highly questionable whether the procurement levels projected by the Administration will be realized because the source of funding comes from optimistic inflation estimates, and uncertain and unpredictable savings from base closings and procurement reform.

#### ***Overly Optimistic Inflation Estimates***

The Clinton Administration's defense budget assumes that inflation will hold at a constant 2.2 percent over the next seven years. But over the last 30 years, there has never been a seven-year period where inflation has remained so low. During questioning before the Senate Armed Services Committee on March 5, 1996, Secretary of Defense William Perry conceded this point, and admitted "if inflation even goes up 1 or 2 percent, we have to increase the top line to compensate for that."

And the Congressional Budget Office, (CBO) in its preliminary inflation estimates (soon to be released) projects that inflation will be **well above** 2.2 percent for the seven-year period (FYs 1996-2002). CBO's inflation estimates, by year, are as follows:

1996: 2.6 percent;

2000: 2.9 percent;

1997: 3.1 percent;

2001: 2.9 percent;

1998: 3.1 percent;

2002: 3.0 percent.

1999: 2.9 percent;

These estimates average nearly 3 percent over seven years, i.e., the Administration's projections are almost 25 percent lower than CBO's.

### ***Uncertain Savings from Base Closings and Procurement Reform***

The five-year budget released by the Pentagon assumes a savings of \$17.8 billion from base closings. However, this estimate fails to account for the costly cleanup efforts that are associated with base closings. Recently the Pentagon announced that the savings will be at least \$1 billion less than anticipated because of the costs of cleanup. As cleanup costs grow, it is likely the projected savings from base closings will decline.

If trying to project savings from base closings is problematic, projecting savings from procurement reform is even more difficult. While streamlining the process of acquiring weapons systems has proven relatively successful, it is unclear just how much the Pentagon will be able to save by applying these measures. In the past, the savings from acquisition reform has fallen far short of the anticipated levels.

### **White House Bypassing the Military's Recommendations**

Equally disturbing is that the White House has ignored recommendations by top U.S. military officials that procurement should be increased this year. According to a memo obtained by the *Washington Times* from Chairman of the Joint Chiefs of Staff (JCS) General John Shalikashvili to Defense Secretary Perry assessing future defense spending, the Chairman stated, ***"I believe we risk future combat readiness of the U.S. military if we fail to adequately fund recapitalization, starting in FY 1997."*** He continued, ***"I urge you to set a procurement goal of about \$60 billion per year beginning in FY 1998"*** [*Washington Times*, 3/8/96, p. A14].

Despite this appeal, procurement spending would only reach the \$60 billion level in FY 2001, **three years later** than recommended by the Joint Chiefs. The gap between what the Administration has proposed and what General Shalikashvili recommended is as follows: FY 1998: \$14.5 billion less; FY 1999: \$9.5 billion less; FY 2000: \$2.3 billion less, for a three-year difference of \$26.3 billion.

Admiral William Owens, vice chairman of the Joint Chiefs of Staff highlighted his frustration over the Administration's procurement proposal in testimony before the Senate Armed Services Committee:

***"... In 1993 the President's budget had for procurement \$62 billion ... It also said in 1994 that procurement would be at \$63 billion. Of course, what really happened was it went to \$48 billion, but we all thought it was going to go up. And in 1995 it said it was going to go up to \$55 billion. But in fact, what really happened was \$46 billion ... And in 1996, we're now down to \$39 billion***

***and we're promising that it will go up. We've got to stop promising ourselves and start doing something . . ."***

[Admiral William Owens, before the Senate Armed Services Committee, 2/28/96]

## **The 104th Congress: Protecting Procurement**

The majority party in the Senate believes that the last two defense budgets proposed by the Clinton Administration underfunded defense and that a growing gap between requirements and programs needs to be narrowed, and so added \$7 billion to the FY 1996 defense budget. This was seen as a necessary first step toward resolving a funding deficiency, as identified by a July 1994 General Accounting Office report that stated defense has been underfunded by at least \$150 billion over the [then] future years defense program.

In December 1995, Administration officials criticized Congress' defense spending increase as unnecessary, counterproductive, and as "pork," preferring instead to shift some of the \$7 billion add-on to pay for peacekeeping in Bosnia and domestic programs such as education and the environment. Further, a Presidential spokesman cited the \$7 billion authorization for weapons "that even the Pentagon says are not needed for national security," as one reason President Clinton vetoed the FY 1996 Defense Authorization bill [*Washington Times*, 12/29/95, p. A3].

Yet, in answering a question regarding the increase during a hearing before the Senate Armed Services Committee, JCS Chairman Shalikashvili noted that in many cases, the plus-ups to the defense budget actually have saved the Pentagon money:

***"I think that the vast majority of the money was against things that we were going to buy later that were brought forward as the result of what you did, and in many, probably in all, cases in the long run will result in a savings because we were able to get them sooner and probably at a more advantageous price."***

[SASC Hearing on the DoD Authorization Request for Fiscal Year 1997, 3/5/96]

Further, the only reason the Administration is spending \$42.3 billion for procurement this year is because the Republican majority in Congress applied \$5 billion of the \$7 billion increase to procurement accounts for modernization. Given the Clinton Administration's cut in procurement this year, it is likely Congress will once again be forced to provide additional funds to the defense procurement account.

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